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# AICPA *Washington Report*

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## FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

Fair Lending and Community Reinvestment is the title of a notice of request for comments by the Federal Financial Institutions Examination Council (FFIEC) (see the 9/20/82 Fed. Reg., pp. 41421-23). Comments are requested on a consultant's report, forwarded to the Congress by FFIEC, which in general concludes that a unified system for assisting the agencies in meeting their obligations under the appropriate laws is feasible. FFIEC also states that several of the recommendations contained in the report to Congress involve statutory, regulatory or procedural changes that could have a significant effect upon depository institutions. The notice also states that a number of community and consumer organizations and industry associations have asked the council to provide an opportunity for comment. Comments should be received on or before 11/29/82. For additional information contact Louise Kotoshirodo at 202/287-4210.

## GENERAL ACCOUNTING OFFICE

Excessive Keogh retirement plan deductions by self-employed individuals may have totaled \$114 million in 1977 and are continuing, according to a recent GAO report to the Commissioner of the IRS. The report stated that such retirement plans, also referred to as "H.R. 10" plans, accounted for an average of \$2 billion in annual tax deductions during years 1977 through 1980. The report went on to say that "because the legal requirements associated with Keogh plans are complex, there is considerable potential for error in computing allowable deductions." GAO recommended that while tax law simplification would be the best means for dealing with the problem of excessive Keogh deductions, such simplification would be a long term project. Meanwhile, according to GAO, the IRS can reduce the frequency and amount of such deductions by (1) revising Form 1040, and its accompanying instructions, and Publications 17 and 334, and (2) developing and implementing service center mathematical checks and followup mechanisms aimed at correcting errors. The report mentions a 7/27/82 comment on a draft of this report by IRS Commissioner Roscoe Egger in which he stated that the IRS was aware that there has been a problem with respect to excessive Keogh plan deductions taken by taxpayers on their Form 1040 returns. The letter also contains detailed comments which highlighted certain planned IRS responses to the problem of excessive deductions. The report is GAO/GGD-82-85, "IRS Needs To Curb Excessive Deductions For Self-Employment Retirement Plans," and may be obtained by contacting the GAO at 202/275-6241.

IRS examinations of certain tax returns involving international tax issues are conducted in an ineffective and untimely manner, according to a recent GAO report, "Special IRS Examination Procedures Are Needed for Certain Returns Containing International Tax Issues." The report noted that while the IRS has acknowledged and attempted to remedy a number of deficiencies in this area, including the lack of trained auditors in local offices to review these returns, the Service continues to follow procedures that hinder the accuracy of the exams. The GAO report applies to tax returns either filed by U.S. citizens living abroad or by non-resident aliens before leaving the U.S. The IRS's Foreign Operations District Office has the responsibility for conducting the examinations of these returns; however, taxpayers often request that the return be sent to a district office to carry out or complete the examination. Since domestic district auditors are unfamiliar with international tax issues, they feel uncomfortable when examining these returns and are not provided with special tools to review them. To improve the examination process, GAO has recommended that IRS train selected auditors in international tax issues; make pertinent reference documents available; use special procedures to assign these returns; and, develop and make effective use of informa-

tion reports which summarize work already completed by the Foreign Operations District. The IRS has concurred with most of GAO's findings, conclusions and recommendations. Copies of the report may be obtained by contacting the GAO at 202/275-6241 and requesting document GGD-82-77.

#### SECURITIES AND EXCHANGE COMMISSION

A staff accounting bulletin relating to accounting and reporting requirements for oil and gas exchange offers has recently been published by the Commission (see the 9/22/82 Fed. Reg., pp. 41727-34). SAB No. 47, expresses the staff's views concerning the preparation of financial statements of oil and gas exchange offers included in filings with the Commission and the application of the Commission's rules for oil and gas producing activities, particularly in the determination of future net revenues and various full cost accounting matters. For additional information contact John Albert at 202/272-2130.

#### TREASURY, DEPARTMENT OF

"Substantially softened" debt/equity rules will be issued by IRS in final form in 30 to 60 days, according to Deputy Assistant Treasury Secretary David Glickman. The Treasury official made his remarks at the AICPA Small Business Tax Equity Conference which was held in Washington, D.C. on 9/20-21/82. Small business groups have opposed tax code Section 385 regulations since they were last released in final form, leading the Treasury to attempt to rework the regulations. Currently, the Treasury has agreed that any final regulations would not become effective prior to 4/1/83. Although Mr. Glickman did not say how the rules would be changed to accommodate small business, he said, "you will find a substantial softening of our position." According to Glickman, the Treasury has no plans to rewrite this next set of regulations. He said, "we will advise business groups and the members of Congress that we think this is the best we can do." He added that if there is still opposition to the rules, "they should go ahead and repeal Section 385."

Several changes in the proposed regulations relating to industrial revenue bonds for residential rental projects (originally published in the 5/26/82 Fed. Reg.) have been incorporated into the final regulations under Code Section 103(b) (4) (A). The final regulations will provide that a detached house or other structure containing a single dwelling unit also may constitute a "residential rental project." Retained in the final regulations is the rule that proximate and interrelated buildings which are owned in common are treated as part of a single project, but only if financed pursuant to a common plan. At a minimum, project entails the entirety of a building or structure, not merely a part thereof. For projects including several buildings or structures, each building or structure in its entirety must be included in the project. The number of elections for a building allowable under Code Section 168(b) (3) (B) (ii) relating to the applicable cost recovery percentage will not affect the determination of what constitutes an entire building or structure. The final regulations will generally apply for obligations issued after 4/24/79. For additional information contact Charles Powers at 202/566-2041.

A new estate tax election under the Economic Recovery Tax Act of 1981, was the subject of a temporary regulation recently issued by the IRS (see the 9/22/82 Fed. Reg. pp. 41735-36). The temporary regulation which adds a new section as 26 CFR 22.2056-1, applies to the election to deduct the value of property in which the surviving spouse receives a qualifying income interest for life. The executor is authorized to make this election in the estate tax return for estates of decedents dying after 12/31/81. Once the election is made, it is irrevocable. The temporary regulation will remain in effect until superseded by final regulations on the subject. For additional information contact John Harman at 202/566-3238.

Guidance on the pension provisions included in the Tax Equity and Fiscal Responsibility Act (TEFRA) will soon be provided by the IRS. According to William Posner, special assistant to the IRS assistant commissioner of employee plans and exempt organizations, speaking at the 9/20-21/82 AICPA's Small Business Tax Equity Conference, the IRS will provide guidance in the form of announcements on the top-heavy plan provisions in the law and on a special problem for existing plans involving the application of the new benefit limitation.

The Commissioner's Advisory Group will meet 10/12-13/82, to discuss tax compliance legislation of 1982 according to the IRS. The group will focus on requests for expedited treatment on field audits and rulings, IRS undercover programs and IRS paperwork reduction efforts at the 10/12 meeting. On 10/13, the group will discuss the fiscal 1983 taxpayer service program. The meetings, which are open to the public, will be held in Room 3313 of the IRS building at 1111 Constitution Avenue, Washington, D.C. and will begin at 9 a.m. each day. Those who wish to submit written statements or would like additional information should contact John Burke at 202/566-4143.

For additional information, please contact Jim Kovakas, Gina Rosasco, Nick Nichols or Kathee Baker at 202/872-8190.

## **AICPA** *Washington Report*

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